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State of Utah

DEPARTMENT OF NATURAL RESOURCES

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Division of Oil, Gas and Mining

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FILED

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SECRETARY, BOARD OF
OIL, GAS & MINING

April 15, 2010

TO: The Board of Oil, Gas and Mining

FROM: Gil Hunt, Associate Director, Oil and Gas *GH*
Clinton Dworshak, Compliance Manager *CD*
Randy Thackeray, Lead Oil and Gas Auditor *RT*

RE: Staff Memorandum to the Board for Docket No. 2010-015 and 2010-017
Cause No. 131-127A and 131-127B

The Division of Oil, Gas and Mining (Division) has reviewed the referenced matter that will be presented to the Board of Oil, Gas and Mining (Board) during the April 28, 2010, meeting of the Board. With this memorandum, the Division summarizes its review and evaluation of submitted documents and makes a recommendation.

Summary of Request for Agency Action

Burnell Rich, Sherril Rich, James Curtis and Debra Curtis have petitioned the Board to set this matter for investigation and negotiation by the Division to determine why Mountain Oil and Gas, Inc. and Homeland Gas and Oil, Ltd. (MOG/HGO) have not paid them royalties for oil production from the 1-2B1E well located in Section 2, Township 2 South, Range 1 East, U.S. M., Uintah County, Utah (subject section) as required by Statute 40-6-9.

Division Comments

Burnell Rich (Cause No. 131-127A) leased to Uinta Oil and Gas, Inc. (Uinta) May 3, 1996. Burnell Rich owns an undivided mineral interest in a 62.56-acre tract within the subject section. Uinta executed a Communitization Agreement (CA) with the Ute Tribe in 1997 pooling his leased minerals into the 650.90-acre spacing unit.

James and Debra Curtis (Cause No. 131-127B) leased to Uinta September 7, 1996. James and Debra Curtis own an undivided mineral interest in a 40-acre tract within the subject section. Uinta executed a CA with the Ute Tribe in 1997 pooling their leased minerals into the 650.90-acre spacing unit.



The reason for an investigation would be to determine if the petitioners have mineral ownership and are they entitled to royalty payments (40-6-9.4) from the 1-2B1E well. The parties filed with their petitions executed Oil and Gas Leases with Uinta, which appears to establish mineral ownership. Pooling the petitioners minerals into the spacing unit through the CA established their entitlement to royalty payments from oil production.

The Board assigned the Division, at its regular scheduled January 27, 2010, hearing, to investigate and negotiate a different mineral tract (Docket Nos. 2010-(001-007), Cause No. 131-127) in this same section regarding same well (1-2B1E) and Operator (MOG/HGO). The Division reported those findings to the Board last month at the March 24, 2010, hearing. The Board ordered MOG/HGO to escrow those production entitlements until they can be properly dispersed.

Staff Recommendation

The staff performed a comprehensive royalty investigation of this well and section during February and March of this year. The Division requested and was supplied by the operator critical royalty information for the entire section. The Division has the necessary information to calculate the amount the petitioners are owed. The Division believes after reviewing information submitted that petitioners have mineral ownership within the subject section and are entitled to royalty payments.

The Division recommends that another investigation of this section is not necessary and that the Board should take the same action as they did last month (Docket Nos. 2010-(001-007), Cause No. 131-127) and order MOG/HGO to escrow the royalties currently owed to the petitioners and future payment, if they are unable to come to a settlement prior to the April 28, 2010, hearing.

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing STAFF MEMORANDUM for Docket No. 2010-015 and 2010-017, Cause No. 131-127A and 131-127B to be mailed with postage prepaid, this 20th day of April, 2010, to the following:

Burnell Rich
Sherril Rich
1381 South 2350 West
Vernal, UT 84078

James Curtis
10986 Weston Hill Drive
San Diego, CA 92126

Debra Curtis
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Mountain Oil and Gas, Inc.
PO Box 1574
Roosevelt, UT 84066

Homeland Gas and Oil, Ltd.
PO Box 1776
Roosevelt, UT 84066

A handwritten signature in cursive script, reading "Joan Sweet", is written over a horizontal line.